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SECURITY INFORMATION

3 January 1951 *52*

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DAILY DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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SECTION 1 (SOVIET)

1. USSR. New Soviet sea map caps 10-year labor: A recent Soviet broadcast was devoted to what was described as the first detailed "Sea Atlas" in the world. This Atlas was produced after ten years' labor on the initiative of Shakalsky, the outstanding Soviet cartographer and oceanographer, and the first volume of the series was published in 1950.

The creators of the Atlas were said to have put considerable effort into restoring the priority of Russian geographers and navigators in geographical discoveries. In addition, clarification was sought for the names of archipelagos, islands, peninsulas, bays, and straits first discovered and named by Russian explorers.

Reference was made in the broadcast to a recently discovered map of the Russian empire of the seventeenth century in which Alaska, the Aleutians, and other lands are marked as discovered by Russian navigators. Thanks to this map, it is now possible "to establish accurately the real names of the geographical points which were later renamed by the American colonizers." (R FBIS, 28 Dec 51)

Comment: This is a good example of post-war Russian chauvinism which has been frequently manifested in numerous claims of scientific discoveries. In this case, British Admiralty maps were also found in need of correction. "Distortions" introduced by Japanese geographers particularly regarding Korea were obliterated, and considerable help was said to have been derived from the "new maps published by the Government of the Korean People's Democratic Republic."

2. ALBANIA. Soviet planes reported in Albania: An Albanian exile news report published in Rome states that Russian technicians have assembled 40 planes at airfields near the capital Tirana. The planes reportedly were shipped dismantled from the USSR. (R FBIS Ticker, 27 Dec 51)

Comment: The French Minister in Tirana informed the US Embassy in Belgrade in March 1951 that two YAK-9 aircraft had been seen flying over Tirana. Subsequently, in August 1951, [] reported that there were 21 or 22 Soviet YAK-9 and Stormovik aircraft in Tirana. Periodic reports have been received that the USSR was shipping crated planes to Albania.

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3. YUGOSLAVIA. Yugoslavia's 1952 budget announced: In announcing the 1952 Federal budget totaling 282 billion dinars (\$940 million dollars),

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Boris Kidric, chairman of the State Economic Council, stated that the Yugoslav Government hoped that the West would cover the anticipated Yugoslav deficit of 189 million dollars. Kidric explained that "we have a moral right to expect this assistance from the West because we are exposed to more difficulties than any other country in Europe today." He added that the Yugoslav requirements were modest compared with the amount of American aid given to other European countries since 1948.

Expenditures for defense and defense industries will not exceed the 1951 allotment according to Kidric. They will total 210 billion dinars (700 million dollars at the new rate of exchange), which is reportedly 23.7 per cent of Yugoslavia's national income, 30 per cent of the nation's overall budget, and 74 per cent of the federal budget. The total national expenditures which include the federal, republic, and local budgets, will approximate 570 billion dinars (1.8 billion dollars).

Kidric contended that Yugoslavia was making only the "absolute minimum" capital construction in 1952, involving some 128 billion dinars (430 million dollars) or 13.6 per cent of the national income. Beginning in 1953, Kidric said, the main emphasis of the capital investment program will be directed to agriculture, and he added that with completion of the capital investment program, Yugoslavia would be in a position to wipe out all deficits and to balance its international payments. (U NY Times, 29 Dec 51)

Comment: Yugoslav statistics are quite unreliable. Nonetheless, last year's budget figure totaled 172.6 billion dinars. The large increase in the dinar value of the 1952 budget arises from this year's higher price levels. However, a comparative analysis cannot be made until the bases for computations and additional statistics are available.

Yugoslavia's rate of capital investment during the past few years has approached a figure of one-third of the national income. Last year's budget was a composite of federal, republic and local expenditures, and the term "defense industries" was not included in the military breakdown. This semantic maneuver makes it virtually impossible to differentiate between capital investment and strict military expenditures; however, the implication is that no significant change will be undertaken in either of these crucial fields.

4. Use of UN Peace Commission in Yugoslav-Hungarian border dispute suggested: The Yugoslav-Hungarian border dispute over a small island located in the Mura River provides a suitable occasion for the

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Yugoslavs to request an investigation by the newly created UN Balkan subcommission, in the opinion of Ambassador Allen. The Ambassador believes that a Yugoslav request for the services of the subcommission would be particularly appropriate at this time in view of the strong UN support recently given to Yugoslavia's resolution citing Cominform pressures. (S Belgrade 841, 29 Dec 51)

Comment: Heretofore, Yugoslavia has opposed the presence of any UN "watchdog unit."

Although Hungarian occupation of the island on 20 December has created a potentially explosive border situation, the Yugoslav Government has given no indication of unilateral retaliatory action. On 27 December, however, Yugoslavia officially protested the occupation of the island and demanded the immediate withdrawal of Hungarian soldiers.

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SECTION 2 (EASTERN)

1. INDIA. Congress Party expected to win Indian national elections: The US Embassy in New Delhi feels that preliminary results in the Indian national elections foreshadow a Congress Party majority in Parliament and in virtually all of the states. (S New Delhi 2258, Joint Weeka 52, 28 Dec 51)
2. BURMA/CHINA. Chinese Communists reportedly concentrating near Burma border: The Chinese Communists have concentrated "several thousand" troops in Paoshan, near the Sino-Burma boundary, according to reports received by a [redacted] from the hill tribes which inhabit the area. The [redacted] the hill people are fearful of Chinese aggression against Burma during the present dry season. [redacted]

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Comment: Chinese Communist ability to intervene in Burma on short notice has been recognized for some time. Such intervention could be explained on a number of grounds, particularly the continued presence of organized Chinese Nationalist forces on the Burma side of the border. In this connection, the Peiping radio has recently accused the US 7th Fleet of ferrying 70,000 Nationalist troops from Taiwan to reinforce those on the Sino-Burma border.

3. Chinese Nationalists reportedly preparing new attack on Yunnan: The US Embassy in Rangoon reports that the British Consul in Maymyo in northern Burma has been informed by the Sawbwa of Kengtung State that the Chinese Nationalist forces in the Sino-Burma border area are intending to return to Yunnan in February. (S Rangoon 614, 1 Jan 52)

Comment: The Chinese Nationalist forces in Burma are incapable of conducting military action against the Communists in Yunnan, and are not likely to cross the border except as defectors or as small bandit gangs which will use Burma as sanctuary.

4. INDONESIA. Foreign Minister sees small prospect of satisfactory progress in current negotiations with Netherlands: Foreign Minister Subardjo told American Ambassador Cochran that he sees small prospect of progress in The Hague discussions before 15 January--the date on which the Indonesian Government plans to review its policy on the negotiations. Subardjo said he is strongly opposed to unilateral abrogation of the Netherlands-Indonesian Union but that popular Indonesian resentment of the Dutch attitude is making his government's position increasingly difficult. (S Djakarta 920, 28 Dec 51)

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Comment: The National Party, the second largest in Indonesia, has vigorously and persistently criticized the cabinet's policy on the current negotiations with the Dutch. Along with Communist elements, it has demanded the recall of the Indonesian delegation to The Hague and the unilateral abrogation of the Netherlands-Indonesian Union and of other Netherlands-Indonesian agreements signed in 1949.

5. Government has no plans to negotiate trade agreement with USSR:
Foreign Minister Subardjo commented to US Ambassador Cochran regarding a press story on Indonesian-Soviet trade negotiations in London that his government has taken no decision toward entering trade negotiations with Soviet Russia and has no plans for such. He said the Indonesian Parliament definitely would not ratify any agreement even if the government should negotiate it. (C Djakarta 921, 28 Dec 51)

Comment: The Indonesian Government has negotiated no diplomatic exchange with the Soviet Union, nor is it known to have responded to any Soviet overtures for trade negotiations. Trade agreements with certain of the Satellites, originated during the period of Dutch sovereignty, have been renewed, but the opening of negotiations now with the USSR would be out of keeping with the present trend of Indonesian foreign policy.

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INDOCHINA. [redacted] denies reports of recent Chinese Communist build-up near border: [redacted]

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[redacted] asserted that recent stories of an ominous new build-up of Chinese Communist forces near the Indochina border were "Chinese Nationalist merchandise" and had no basis in fact. [redacted] admitted that Chinese Communist forces in this area are in sufficient strength to hit Indochina hard and fast if Peiping so decides.

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[redacted]
"definite information" that Chinese Communist forces in Yunnan and Kwangsi now number about three hundred thousand. This report also states that clothing, military supplies, and small quantities of food are continuing to flow into Indochina, that the railway from Nanning to Pinghsiang will apparently not be extended, and that there are no regular Chinese Communist troop units in Indochina. (S Hanoi 435, 31 Dec; S OARMA Saigon MC 386-51, 31 Dec 51)

Comment: It is certain that the number of troops in the provinces bordering on Indochina has been increasing, but it is unlikely that the number of confirmed troops is as high as three hundred thousand.

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7. CHINA/INDONESIA. Chinese reportedly get Indonesian rubber: [redacted] a Chinese bankder several months ago attempted to contract for rubber in Indonesia. Several Indonesian firms reportedly refused to deal with him, but agreement was finally reached with one company. This company is known to have bid for rubber in Djakarta last November at prices substantially above current market quotations.

The rubber acquired through this company was allegedly shipped to Singapore for reshipment to China. (S Bangkok 1348, 29 Dec 51)

Comment: The Government of Indonesia prohibits the export of rubber to China, but evasions of the embargo are frequently reported. Legal shipments of rubber from producing areas to China have not been made since a Polish vessel lifted over 5,000 tons from Ceylon last October, and Chinese Communist agents are known to be making energetic efforts to acquire additional supplies.

8. CHINA. Chinese Communists reportedly have temporarily given up plans for invasion of Chinmen and Formosa: A prisoner taken in a Chinese Nationalist guerrilla raid on the mainland reportedly has stated that the Chinese Communists have temporarily given up plans to invade Chinmen Island and Formosa because too many troops are occupied both in Korea and in anti-guerrilla warfare on the China mainland. (S ALUSNA Taipei, Joint Weeka 52, 29 Dec 51)

Comment: Other sources have recently reported that Chinmen Island would be invaded in early 1952.

Anti-Communist guerrillas in East China are not considered significant enough to cause Peiping to divert sizable numbers of troops to that area for their suppression.

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9. Peiping allegedly discusses secret settlement with Britain and France: [redacted] a Chinese Communist representative was in Hong Kong in December to negotiate secretly a temporary settlement in the Far East with Britain and France. Peiping's representative reportedly promised Colonial Secretary Lyttelton that, in exchange for admission to the UN and UN trusteeship over Formosa, Peiping would "yield" in the Korean talks and would "guarantee the safety" of Hong Kong, Singapore and Indochina. [redacted] the Chinese official, after reaching "preliminary agreement" with Lyttelton, conferred with Mao Tse-tung and then departed for France by air for further discussions with British and French officials. [redacted]

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Comment: For the first time in many years China may have enough domestic cotton for its textile industry in 1952. The Communists have made strenuous efforts to increase cotton production, which was about 1.7 million bales in 1949 and 2.4 million in 1952. In an effort to meet domestic requirements of about three million bales annually, the Communists have imported large quantities of raw cotton since their takeover in 1949--nearly 100 million US dollars worth in 1950 alone.

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13. Sino-Soviet decisions on POW's reported: [redacted] states that Chinese leaders and their Soviet advisers reached the following decisions in late November regarding UN POW's:

- (1) to leave the POW problem (henceforth?) to the "Pyongyang War Prisoners Administration" for solution; but
- (2) to give "thought training" to POW's already sent outside the jurisdiction of the above agency;
- (3) to send all American POW's to a Manchurian center to be handled by a special agency;
- (4) to send some 500 UN POW's to the USSR after basic "short-term" training; and

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- (5) to send 100 UN POW's to Peiping to work in "cinema propaganda."
- [redacted]

Comment: Returned POW's have reported that all POW's as part of their daily routine are indoctrinated by Communist political officers. It is presumed on the basis of past Communist practice that some hundreds of POW's have been or will be sent to the USSR and China for long-term training.

14. KOREA. Communist military strategy if peace talks break down is reported:
25X1X [redacted] allegedly learned from a North Korean officer in the "Plans and Operations Staff, NKPA Hqs." the Communist military strategy recommended by this staff on 17 December in the event of a break-down of truce talks. Three courses of action were outlined, presumably in the order of their probability:

- (1) to mount the principal offensive on the central front, with Wonju as a primary objective, followed by an attack to the west to isolate the Seoul area. The North Korean Army would be the shock force supported by two tank divisions. "Maximum artillery support and air cover" would be needed. Chinese forces would be held in reserve or would make diversionary attacks.

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- (2) to mount the main effort in the western sector, with an armored force of "300 tanks" spearheading a joint Chinese-North Korean infantry force. A ten-division reserve in the forward area would be maintained, with an additional reserve force in the Anju-Wonsan area to guard against a UN amphibious operation.
- (3) to conduct limited offensives all along the line, if intelligence indicates the probability of a UN amphibious operation. Chinese forces would remain in the combat zone, but North Korean forces would be withdrawn. A UN landing on the North Korean west coast would be strongly opposed before it got ashore by enemy air operations, but a landing on the east coast would be unopposed by enemy air in its initial phase.

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Comment: While this report seems logical on the surface, it must be noted that at best these are only staff recommendations. These plans seem to center around a fear of another UN amphibious operation--a fear which is generally confirmed by other sources. It is, however, illogical that a UN amphibious operation on the east coast would be unopposed by air during its most critical phase before a beach-head is secured.

15. Three Chinese Communist antiaircraft units accepted in Korea: The Far East Command, on the basis of intelligence reports, the increased volume of AAA fire received, and photo interpretation of AAA installations, has now accepted the 1st, 2nd, and 3rd Chinese Communist Antiaircraft Artillery Regiments in Korea. Each of these units is estimated to have a strength of 3,375 and 64 guns (predominantly 37 mm) and to be truckdrawn. Photo interpretation indicated the presence in early December of over 1800 antiaircraft weapons of all calibers in Korea. (S FEAF Tokyo AX 8251, 30 Dec 51)

Comment: Enemy antiaircraft units identified in Korea now constitute three North Korean regiments--the 19th, 20th, and 23rd--and these newly-accepted Chinese regiments. Additionally, the presence of some Soviet personnel serving antiaircraft artillery has been accepted, and most enemy ground combat units possess organic antiaircraft units.

16. North Korean Premier's New Year's speech indicates no change in Korean propaganda line: North Korean Premier Kim Ilson in a 1 January speech echoed the now-familiar propaganda line that has been adopted towards the Korean war. He noted that the aggressive "interventionist plans" had gone bankrupt, and that the UN faces an acute crisis in Korea in view of the "quarrels and splits within the aggressive camp" and the lowered morale of

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the UN soldiers. Chinese intervention was praised as a "just war" to forestall the invasion of China and a brotherly gesture to preserve the freedom of North Korea. Kim concluded with the familiar threat that "if the enemy does not withdraw from Korea but continues the aggressive war, the destruction of American imperialism will surely be hastened." (R FBIS Ticker, Pyongyang, 1 Jan 52)

17. Various economic measures urged by Pyongyang: In a lengthy year-end report, Pyongyang outlined various economic measures that must be initiated to ensure victory in the war. Admitting "the unprecedentedly great economic loss" caused by UN bombing and the expansion and prolongation of the war, the article listed six proposals to secure increased mobilization and utilization of materials and resources: maintenance of a monthly balance sheet registering "all valuables, such as raw materials, fixtures, and all the monetary assets"; effective utilization of all scrap material; strict conservation of raw materials, merchandise, and foods; increased distribution of idle labor and "rational systemization of labor"; a decrease in the state budget and individual financial organizations' expenditures; and stricter "economic calculation and accounting" by each financial and economic organization. (U FBIS, 21 Dec 51)

Comment: This discourse points out the three major problems that beset North Korea's economic recovery: destruction of industrial facilities; extreme shortage of manpower; and fiscal dislocation.

18. JAPAN. Japanese worried by large reserve of pounds sterling: Japanese financial and trade circles are apprehensive over the problem of increasing sterling balances, according to the Pan-Asia press service. The present large sterling holdings are the result of two factors. First, many Southeast Asian countries recently have begun to buy Japanese goods through Hong Kong with cheap pounds, saving scarce American dollars. Secondly, Japanese buying from sterling areas has dropped off because of a decrease in British export capacity as well as a deterioration in the quality of goods from sterling area countries. (U FBIS Ticker, 31 Dec '51)

Comment: The Japanese Foreign Exchange Control Board recently announced a reduction of the buying quotation of the pound sterling while maintaining the present selling rate. This action, it is expected, will to some extent discourage Japanese exports to the sterling area, as the exporter will receive less yen from sterling sales to the Board. In addition, maintenance of the selling rate may tend to encourage imports from the sterling areas.

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19. Former Home Ministry official appointed Osaka police chief: Naraichi Tanaka, a depurgee, has been appointed police chief of Osaka over the protests of both the Federation of Municipal Chiefs of Police and the National Rural Police Headquarters. Tanaka was formerly attached to the police bureau of the Home Ministry, and CINCPAC comments that his appointment may presage the return to police power of depurged former Home Ministry officials. (S Tokyo Weeka 52, 29 Dec 51)

Comment: Many Japanese bureaucrats look back nostalgically upon the relative efficiency of the centralized form of the Japanese Police under the Home Ministry prior to the Occupation's reform of the police system. Many of the depurgees will no doubt find their way back into the police in a government effort to strengthen internal security and improve police efficiency.

Yomiuri on 30 December reported a "movement in the air" aimed at reviving the defunct Home Ministry.

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SECTION 3 (WESTERN)

1. GERMANY. Communists exploit former German Chancellor in unity campaign: Certain West German political leaders are concerned over Soviet and East German exploitation of Joseph Wirth, a former Centrist Chancellor of the Weimar Republic, in the current unity campaign. Wirth, now in the Soviet Sector of Berlin as a guest of the Communists, has reportedly already seen important Soviet and East German officials.

The former Chancellor, who is embittered against the present West German Government for neglecting him politically, reportedly plans to send a letter to all members of the West German Parliament denouncing Adenauer as a separatist and traitor and attacking the Schuman Plan and the West German position on unification. Official concern is felt over the possible effect of such a letter, since Wirth's name is thought still to carry weight among older generation Germans, and in neutralist circles. (C Berlin 864, 29 Dec 51)

Comment: Wirth has not been politically influential in postwar Germany, and the effect of any letter he may send to parliamentary delegates may be undercut somewhat by recent press reports of his presence in Berlin as the guest of the Communists. Nevertheless this, as well as Paster Niemoeller's present trip to Moscow, represents increased Soviet-East German pressure on vulnerable West German political elements.

2. EAST GERMANY. Ulbricht alleged to be in Moscow's disfavor: East German Foreign Minister Georg Dertinger was asked on 19 December whether there is any truth in a rumor that Walter Ulbricht is in disfavor with the Russians. Dertinger said that it was a fact; he added that Ulbricht's objections to the sending of an East German delegation to Paris had been overruled by Ambassador Semenov.

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Comment: A West German press source recently reported a "violent dispute" on 5 December between Otto Grotewohl, East German Premier, and Ulbricht, Deputy Premier and Secretary-General of the East German Socialist Unity (Communist) Party. Ulbricht, reputed to be the number one Communist in the East German Government, allegedly opposed the sending of a delegation to the UN. Ulbricht's recent visit to Moscow, reportedly for policy consultations, suggests that he is still high in Moscow's favor; moreover, the credibility of Dertinger's statement is reduced by his reputation for making contradictory and unreliable declarations.

3. FRANCE. French Government threatened by stalemate in budget debate: Premier Plevin, faced with what he considers "the most serious cabinet situation"

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since the elections, is "actively casting about" for a compromise formula in the current budget discussions. Although the Assembly has succeeded in passing a provisional military expenditures bill, the tug of war over revenues, on which the government is expected to put the confidence question, continues. The Radicals, who insist on reform of the railroad and social security systems as the condition for voting tax increases, and the Socialists, who reject all such legislation, are in a deadlock. The Gaullists and the Communists oppose both the reforms and tax increases. A compromise which would allow Socialist abstention without causing the government to collapse is being sought. (C Paris 3849 and 3906, 28 and 31 Dec 51)

Comment: Despite the strong support given three weeks ago to the Pleven government in the Schuman Plan ratification, coalition strength is indicated not by agreement on foreign policy, but by the degree of cohesion on economic and ideological issues, where the cleavages are most pronounced.

4. AUSTRIA. Austro-Czech trade agreement depends on exports of alloy steels: Following the breaking-off of negotiations in Prague, the chief Austrian trade delegate has returned to Vienna with the report that the Czechs remain adamant in their demands for 105 tons of high-speed 10 percent tungsten steel and chrome-nickel anti-corrosion steel. The draft agreement, involving the exchange of about 60 million dollars worth of goods, is otherwise completed with a Czech offer of 20 percent less coal than in the previous agreement and Austrian exports of less than half the previous quantities of steel. In return for various types of coal and coke, sugar, and ceramic clays, the Austrians will export steel, pig iron, non-embargo type ball bearings, cranes, electrical ovens, moulds, aluminum, and free dollars. On the grounds that the problem of payment for alternative coal supplies and the need for an export market requires a conclusion of the agreement, the Austrian Foreign Office has requested the US Embassy for an early decision permitting the shipment of special alloy steels demanded by the Czechs. (S Vienna 2160, 29 Dec 51)
5. West refuses to amend air corridor route: The Western elements of the Allied Council refused to accept a Soviet proposal to change the long-established air corridor connecting Graz, in the British Zone, with Vienna. Despite Soviet allegations to the contrary, the Western elements contended that the new corridor would be more dangerous than the old one. US and British representatives replied to Soviet protests that the West would have to accept responsibility for the consequences of failure to change the route by reminding the Soviet representative that air safety was the responsibility of all four occupying powers. (R Vienna 2158, 29 Dec 51)

Comment: US officials in Vienna have believed that Soviet motives in pressing for a change in the corridor reflected a concern for protecting

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their large air installations at Wiener Neustadt from air observation. Western unanimity in rejecting the Soviet proposal appears to have disposed of US anxiety that bilateral Anglo-Soviet negotiations on this issue would compromise the principle of quadripartite authority in this field.

6. NETHERLANDS. Dutch-Indonesian talks at a standstill: A Dutch Foreign Office official has stated that the Dutch-Indonesian talks are at a standstill because of failure to settle incidents involving Indonesian seizure of arms from two Dutch vessels. The Dutch are also irritated at the Indonesian refusal to grant exit permits to Dutch nationals working in Netherlands New Guinea to return there after spending leave in Indonesia. The official concludes that the "only bright spot" is that Indonesia has not sought to justify its actions on the basis of its claim to New Guinea. (S The Hague 640, 28 Dec 51)

Comment: Despite the Dutch official's statement, Indonesia's actions in these instances were undoubtedly prompted by the New Guinea dispute.

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8. SWITZERLAND. Dissension in Swiss Communist Party is at all-time high: Dissension within the Swiss Communist Party has developed to such an extent as to cause the party's central committee to circulate publicly a directive calling attention to the discord. The directive charges former Communist Buenzod and others with fomenting discord in the party and warns that contact with expelled party members would be considered a gross breach of party discipline. (R, Bern Joint Weeka 52, 28 Dec 51)

Comment: This is a further indication that the Swiss Communist Party will continue to diminish in popularity, suffer further electoral losses, and undergo additional intraparty strife.

9. UNITED KINGDOM-SWEDEN. New trade agreement increases Swedish imports of coal from Britain: A new trade agreement between Sweden and the United Kingdom provides that the UK will deliver 1.2 million tons of coal and 200,000 tons of coke to Sweden during 1952. The 1951 agreement called for no coke and only 500,000 tons of coal. Sweden will export 3.6 million tons of iron ore to Britain, the same amount as in 1951. (R Stockholm Joint Weeka 52, 28 Dec 51)

Comment: Britain's pressing need for iron ore enabled the Sweden to obtain promises for increased quantities of coal and coke, despite the fact that the UK is itself importing 750,000 tons of American coal in the first three months of this year. Sweden's solid fuel supply for 1952 is now assured.

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SECTION 1 (SOVIET)

1. YUGOSLAVIA. Tito considers danger of Soviet aggression lessening: In a recent conversation with an American UN delegate, Tito stated that he thought the danger of outright Soviet aggression was lessening in proportion to the rearmament and strengthening of the non-Cominform world. He believes that Stalin and other high Soviet authorities remain prisoners of their preconceived notions concerning capitalism and still expect to bring about the defeat of the West through the latter's economic collapse.

Tito declared categorically that armies and peoples fought best to prevent their country from being overrun by an aggression and that all other considerations were secondary. (S, S/S Belgrade 834, 28 Dec 51).

Comment: Yugoslav leaders had previously indicated that they considered the danger of Soviet attack greatest in the year 1952 since the USSR might decide to strike before the West reached its peak of preparedness in 1954. Tito's statement is consistent, however, with his previous assertions that Western strength is a primary deterrent to Soviet aggression.

Further evidence that the regime is well aware that its people will fight best for nationalistic reasons is the increasing stress that has been placed on nationalism in Yugoslav holiday celebrations and the relegation of Communist ideology to a secondary role.

SECTION 2 (EASTERN)

2. EGYPT. Egyptian King awaiting opportunity to appoint new government: According to the new Chief of the Royal Cabinet, King Farouk is taking precautions to avoid the appearance that any action he might take in causing a change of government in Egypt would be British-inspired.

The British Ambassador has warned his Foreign Office that a solution of the present problem is impossible without a minimum concession on the Sudan. He believes that this concession might be British recognition of King Farouk's new title within a framework providing for Sudanese self-determination. (S, S/S Cairo 967, 29 Dec 51).

Comment: King Farouk has shown increasing eagerness to bring about the fall of the present Wafd government. There is considerable doubt, however, whether even Western acceptance of Farouk's title of "King of Egypt and the Sudan" would sufficiently pacify aroused Egyptian public opinion to enable the dismissal of the majority party government without serious internal disturbances.

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SECTION 3 (WESTERN)

3. SWITZERLAND. Swiss and Germans negotiate on World War II German assets liquidation: The Swiss and Germans have made progress in reaching agreement on the liquidation of German assets in Switzerland, required by a postwar agreement among Switzerland, France, Britain, and the United States. According to the new proposals the Swiss will receive between 100 and 135 million Swiss francs, from which they will pay Swiss war victims. The same amount will be divided among the Allies. Individual German holdings under 10,000 francs will be exempted. Because the liquidation of German assets will yield about 400 million francs, or roughly 100 million francs more than necessary to reimburse all the parties concerned, approximately twenty-five percent of the assets will not be liquidated.

The Germans would like to have the sums which they pay the Swiss under this agreement apply against the over-all German-Swiss debt settlement picture. The Swiss are resisting this on the grounds that under the previous Swiss-Allied agreement, they would receive 250 million Swiss francs, which is more than is allotted to them under the new proposals. (C, S/S London SIGTO 895, 12 Dec 51).

Comment: This report indicates that the problem of the liquidation of German assets in Switzerland is as yet not ready for solution. Any Swiss-German agreement must be acceptable to the Western Allies. France and the UK appear, however, ready to accept any plan agreeable to the Swiss and Germans.

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